Sanatana Diamonds Inc.

(An Exploration Stage Company)

Financial Statements
For the Years Ended March 31, 2008 and 2007
(Stated in Canadian dollars)

CONTENTS

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Auditors' Report

To the Shareholders of
Sanatana Diamonds Inc.
(An Exploration Stage Company)

We have audited the balance sheets of Sanatana Diamonds Inc. (an exploration stage company) as at March 31, 2008 and 2007 and the statements of changes in shareholders' equity, operations and comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada
June 12, 2008

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Balance Sheets
(Expressed in Canadian dollars)

	March 31, 2008	March 31, 2007
Assets		
Current		
Cash and equivalents (note 8(c))	$ 10,058,876	$ 5,572,786
Amounts receivable (note 5)	1,313,039	83,115
Prepaid expenses	111,504	64,782
	11,483,419	5,720,683
Exploration advances	-	5,287
Mineral properties (note 6)	23,657,815	16,019,185
Property and equipment (note 7)	382,094	98,677
	$ 35,523,328	$ 21,843,832
Liabilities		
Current		
Accounts payable (note 11)	$ 816,479	$ 284,083
Accrued liabilities	347,113	275,469
	1,163,592	559,552
Future income tax liability (note 12)	4,370,601	3,002,618
	5,534,193	3,562,170
Shareholders' Equity		
Common shares (note 8)	31,754,515	20,041,875
Share purchase warrants (note 9)	378,144	327,954
Contributed surplus	499,397	23,146
Deficit accumulated in the exploration stage	(2,642,921)	(2,111,313)
	29,989,135	18,281,662
	$ 35,523,328	$ 21,843,832

Ability to continue as a going concern (note 2)

The accompanying notes are an integral part of these financial statements

Approved on behalf of the board of directors:

Peter Miles, Director

Edward Marlow, Director

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statement of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Number of Shares	Common Shares	Contributed Surplus	Share Purchase Warrants	Deficit Accumulated in the Exploration Stage	Shareholders' Equity
Balance - March 31, 2006	33,606,794	$ 11,040,831	$ -	$ -	$ (1,254,549)	$ 9,786,282
Issuance of shares on public offering at $1.75, net of issuance costs of $1,266,061 (note 8(c))	7,142,857	11,233,939	-	-	-	11,233,939
Issuance of warrants as listing costs (note 8(c))	-	(327,954)	-	327,954	-	-
Issuance of shares as listing costs (note 8(c))	100,000	175,000	-	-	-	175,000
Tax value of assets renounced to flow-through share investors	-	(2,079,941)	-	-	-	(2,079,941)
Stock-based compensation (note 10)	-		23,146	-	-	23,146
Loss for the year	-		-	-	(856,764)	(856,764)
Balance - March 31, 2007	40,849,651	20,041,875	23,146	327,954	(2,111,313)	18,281,662
Private placement of units at $0.25 (note 8(c))	6,846,420	1,711,605	-	-	-	1,711,605
Private placement of flow-through units at $0.30 per unit (note 8(c))	6,669,000	2,000,700	-	-	-	2,000,700
Share issuance costs	-	(419,828)	-	-	-	(419,828)
Private placement of units at $1.35 (note8(c))	4,200,055	5,670,074	-	-	-	5,670,074
Private placement of flow-through units at $1.55 per unit (note 8(c))	2,793,500	4,329,925	-	-	-	4,329,925
Share issuance costs	-	(1,065,329)	-	-	-	(1,065,329)
Private placement of units at $1.56 (note 8(c))	641,025	1,000,000	-	-	-	1,000,000
Issuance of warrants as listing costs	-	-	-	212,000	-	212,000
Tax value of assets renounced to flow-through share investors	-	(2,082,983)	-	-	-	(2,082,983)
Exercise of agent warrants	211,461	531,867	-	(161,810)	-	370,057
Exercise of warrants	108,142	36,609	-	-	-	36,609
Stock-based compensation (note 10)	-	-	476,251	-	-	476,251
Loss for the year	-	-	-	-	(531,608)	(531,608)
Balance - March 31, 2008	62,319,254	$ 31,754,515	$ 499,397	$ 378,144	$ (2,642,921)	$ 29,989,135

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statement of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

For the years ended March 31,		2008		2007
Expenses				
Amortization	$	28,110	$	26,122
Consulting and advisory fees		53,569		64,854
Director fees		61,914		69,917
Filing fees		58,404		38,940
Investor relations		51,738		99,702
Management fees		85,500		209,977
Office and administration		286,852		241,881
Professional fees		165,402		161,984
Stock-based compensation (note 10)		476,251		23,146
Transfer agent fees		32,519		33,401
Travel and accomodation		120,266		155,177
Loss before undernoted		(1,420,525)		(1,125,101)
Interest income		173,917		268,337
Loss before income taxes		(1,246,608)		(856,764)
Future income tax recovery (note 12)		715,000		-
Net loss and comprehensive loss for the year	$	(531,608)	$	(856,764)
Loss per share - basic and diluted	$	(0.01)	$	(0.02)
Weighted average common shares outstanding - basic and diluted		47,968,913		39,956,686

The accompanying notes are an integral part of these financial statements

Sanatana Diamonds Inc.

(An Exploration Stage Company)
Statements of Cash Flows
(Expressed in Canadian dollars)

For the years ended March 31,		2008		2007
Cash provided by (used in):				
Operating activities				
Net loss for the year	$	(531,608)	$	(856,764)
Adjustment for non-cash items:				
Amortization of property and equipment		28,110		26,122
Amortization of lease inducement		(6,780)		1,037
Stock-based compensation		476,251		23,146
Future income tax recovery		(715,000)		-
Amounts receivable		(6,668)		61,056
Prepaid expenses		(46,722)		(33,882)
Accounts payable		(12,028)		(67,706)
Accrued liabilities		78,424		123,036
		(736,021)		(723,955)
Investing activities:				
Exploration advances		5,287		(5,287)
Mineral properties		(8,750,895)		(8,500,683)
Property and equipment		(325,183)		(39,215)
Kennecott - option and contribution		447,089		2,500,000
		(8,623,702)		(6,045,185)
Financing activities:				
Issuance of common shares		15,118,970		12,500,000
Offering costs		(1,273,157)		(904,711)
		13,845,813		11,595,289
Increase in cash and equivalents		4,486,090		4,826,149
Cash and equivalents, beginning of year		5,572,786		746,637
Cash and equivalents, end of year	$	10,058,876	$	5,572,786
Cash and equivalents comprise:				
Cash	$	9,472	$	52,867
Equivalents		10,049,404		5,519,919

Supplementary Cash Flow Information (note 15)

The accompanying notes are an integral part of these financial statements

1. Nature of Business and Basis of Presentation

Sanatana Diamonds Inc. ("Sanatana" or the "Company") was incorporated on June 25, 2004 in the Province of British Columbia under the British Columbia Business Corporations Act. The Company is an exploration stage company, and its principal business activity is the acquisition, exploration and development of properties. The Company has mineral property rights in the Northwest Territories which it is exploring and developing in a joint venture with Kennecott Canada Exploration Inc. (note 6) in Canada.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's continuing operations, and the underlying value and recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

The business of exploring for and mining of minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties in which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, and non-compliance with regulatory requirements.

2. Ability to Continue as a Going Concern

The accompanying annual financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these financial statements do not reflect any adjustments to the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material. As at March 31, 2008 the Company has no source of operating cash flow and has an accumulated deficit of approximately $2.6 million. Operations for the year ended March 31, 2008 have been funded primarily from issuances of capital stock.

3. Significant Accounting Policies

The following outlines the significant accounting policies under which these financial statements have been prepared, and to which the Company adhered for the years ended March 31, 2008 and 2007.

a) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenditures during the reporting period. The Company regularly reviews these estimates and assumptions that affect the annual financial statements and actual results could differ from those estimates.

Significant areas where management judgement is applied include asset valuations, the recoverability of exploration and development expenditures on mineral properties, asset retirement obligations, stock based compensation, recoverability of future income tax assets, and contingent liabilities. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented are reflected in these financial statements.

b) Mineral properties

Mineral property acquisition costs, holding costs, field exploration and field supervisory costs relating to specific properties are deferred until the property to which they relate is placed into production, at which time they will be amortized on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made.

Costs include the cash consideration paid and the fair market value of the shares as they are issued, if any, on the acquisition of exploration properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year. Costs incurred for administration and general exploration that are not project specific, are charged to operations.

3. Significant Accounting Policies (continued)

b) Mineral properties (continued)

The recorded amounts for acquisition costs of properties and their related capitalized exploration and development expenses represent actual expenditures incurred and are not intended to reflect present or future values. The Company, however, reviews the capitalized costs on its properties on a periodic, or at least annual, basis and will recognize an impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties. No such write-downs were recognized during the years ended March 31, 2008 and 2007.

c) Property and equipment

Property and equipment is carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the assets' estimated useful lives at the following rates:

Computer equipment	straight-line basis over 3 years
Office furniture	straight-line basis over 5 years
Exploration equipment	straight-line basis over 5 years
Leasehold improvements	straight-line basis over 3 years

The Company reviews the carrying values on a regular basis and a provision is made against income in the period that an impairment is determined by management. No such write-downs were recognized during the years ended March 31, 2008 and 2007.

d) Cash and equivalents

Cash and equivalents include cash on deposit with banks and highly liquid short-term interest bearing investments with maturities of 90 days or less from the original date of acquisition.

3. Significant Accounting Policies (continued)

e) Income taxes

Income taxes are calculated using the asset and liability method of accounting. Temporary differences arise from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet. These temporary differences are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using the tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

The Company has issued flow-through shares to finance its exploration activities. Such shares were issued for cash in exchange for the Company transferring tax benefits arising from an equal dollar amount of exploration expenditures to the purchasers of the flow-through shares. To recognize the foregone tax benefits, the Company reduces the carrying value of the shares by the tax effect of the tax benefits renounced to the subscribers.

Furthermore, the Company follows the recommendations of Emerging Issues Committee (EIC) Abstract No 146, “Flow-Through Shares” (“EIC 146”) to account for flow-through share issuances. This abstract requires the recognition of a future income tax liability on the date that exploration expenditures are renounced to investors. This date may be different than the effective date of renunciation. Any offsetting future tax asset is recognized as a recovery of income tax expense.

f) Loss per common share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflects the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented.

For the year ended March 31, 2008, potentially dilutive common shares, relating to share purchase options and warrants totalled 12,876,255 (2007 – 3,598,571).

g) Asset retirement obligations

The Company follows the recommendations of CICA Handbook section 3110, “Asset Retirement Obligations” which require companies to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and normal use of the assets. The obligation will be measured initially at fair value using present value methodology and the resulting costs will be capitalized into the carrying amount of the related asset. In subsequent periods, the liability will be adjusted for any changes in the amount or timing of the underlying future cash flows. Capitalized asset retirement costs will be depreciated on the same basis as the related asset and the discounted accretion of the liability is included in determining the results of operations.

3. Significant Accounting Policies (continued)

g) Asset retirement obligations (continued)

At March 31, 2008 the Company has only performed preliminary exploratory work on its mineral properties, and has not incurred significant retirement obligations. As such, a provision for the estimated cost of dismantling of the camp, which will occur within the next four years, has been recognized in the financial statements at March 31, 2008 and 2007.

h) Share capital

Common shares issued for non-monetary consideration are recorded at their fair market value based on the trading price of the Company's shares on the TSX Venture Exchange (the "Exchange") or London's Alternative Investment Market ("AIM") on the date of the agreement to issue the shares.

i) Stock based compensation

The Company expenses, over the vesting period, the fair value of the options granted to directors and employees at the date of grant. The fair value of options granted to individuals or companies that are not employees or directors are valued at the earliest of the following: the date at which the counterparty's performance is complete, the date at which a performance commitment to earn the equity instruments is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable at that date.

In 2005, the Company's shareholders approved a stock option plan (the "2005 Plan") which allows Sanatana to grant incentive stock options numbering up to 10% of the number of issued and outstanding common shares of the Company to its officers, directors, employees and consultants, for the purchase of common shares of the Company. Stock options are non-transferable. The board of directors of the Company determines the exercise price, but it may be no less than the current market price at the time of the grant. Options have a maximum term of five years and terminate 90 days after the termination of employment or other contracting arrangement of the option holder. Vesting of options may be at the time of granting of the option, or over a period as set out in each option agreement. Once approved and vested, options are exercisable at any time until expiry.

The Company records stock-based compensation expense over the vesting term of the options granted. In July 2007, the Company's shareholders approved a continuation of the 2005 Plan under the rules of the Exchange.

j) Financial instruments

The Company's financial instruments consist of cash, amounts receivable, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments, except as disclosed in note 14. The fair values of these financial instruments approximate their carrying values due to the short-term or demand nature of these instruments. The carrying value of deposits approximates fair value primarily due to the floating rate nature of the instrument.

3. Significant Accounting Policies (continued)

k) Changes in accounting policy

The Company has adopted four new accounting standards: Handbook Section 1506, "Accounting Changes", Handbook Section 1530, "Comprehensive Income", Handbook Section 3855, "Financial Instruments – Recognition and Measurement", and Handbook Section 3865, "Hedges". Adoption of these standards has not had a material effect on the Company's financial condition or results of operations.

Other Comprehensive Income

As a result of adopting these standards the Company may add a new category to the statement of shareholders' equity on the Company's balance sheet: accumulated other comprehensive income. Major components for this category will include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, and changes in fair value of the effective portion of cash flow hedging instruments.

Financial Instruments - Recognition and Measurement

All financial instruments are to be classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income.

Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

Accounting Changes

Effective January 1, 2007, the Company adopted CICA Handbook Section 1506 "Accounting Changes" which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. Under the new standard, accounting changes should be applied retroactively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policies are made only when required by a primary source of GAAP or the change results in more relevant and reliable information. The Company has determined that the application of this section did not have any impact on the financial statements.

4. Recently Released Canadian Accounting Standards

a) The CICA has issued new accounting standards Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation” which replace Section 3861 “Financial Instruments–Disclosure and Presentation”. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the existing presentation requirements. These new standards are effective for the Company for periods beginning on or after October 1, 2007. The Company is evaluating the impact that the adoption of Section 3862 and Section 3863 will have on its financial statements.

b) Effective April 1, 2008, the Company will adopt new accounting standard Section 1535, “Capital Disclosures”, which requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements and, if not in compliance, the consequences of such non-compliance. The Company is evaluating the impact that the adoption of Section 1535 will have on its financial statements.

c) The CICA has issued new accounting standard Section 3064, “Goodwill and Intangible Assets”. This section replaces Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning April 1, 2009. The Company is currently assessing the impact that the adoption of this standard will have on its financial statements.

d) On February 13, 2008, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards (“IFRS”) by 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

5. Amounts Receivable

Included in the amounts receivable is $1,223,256 owed by Kennecott representing their 15% of the Company’s exploration expenditures. (note 6)

(Expressed in Canadian dollars)

6. Mineral Properties

The cumulative costs incurred on the Company's mineral properties are as follows:

For the years ended March 31,	2008	2007
Acquisition costs		
Opening balance	$ 421,800	$ 188,970
Incurred in the year	4,276	232,830
Closing balance	426,076	421,800
Helicopter and fixed wing aircraft costs		
Opening balance	8,470,331	4,491,768
Incurred in the year	3,598,029	3,978,563
Closing balance	12,068,360	8,470,331
Sampling and assays		
Opening balance	3,359,624	1,975,735
Incurred in the year	565,006	1,383,889
Closing balance	3,924,630	3,359,624
Contractor and consultant		
Opening balance	4,354,363	1,790,687
Incurred in the year	2,648,161	2,563,676
Closing balance	7,002,524	4,354,363
Project management fees		
Opening balance	575,997	499,997
Incurred in the year	86,000	76,000
Closing balance	661,997	575,997
Field and camp		
Opening balance	842,082	196,037
Incurred in the year	649,971	646,045
Closing balance	1,492,053	842,082
Transport and accommodation		
Opening balance	1,629,907	734,339
Incurred in the year	673,340	895,568
Closing balance	2,303,247	1,629,907
Expediting		
Opening balance	443,522	116,110
Incurred in the year	65,142	327,412
Closing balance	508,664	443,522
Reclamation provision		
Opening balance	120,000	120,000
Provided in the year	-	-
Closing balance	120,000	120,000
Other		
Opening balance	342,586	307,579
Incurred in the year	80,065	35,007
Closing balance	422,651	342,586

(Expressed in Canadian dollars)

6. Mineral Properties (continued)

For the years ended March 31,	2008	2007
Total costs incurred on mineral properties	28,930,202	20,560,212
Reimbursable bonds and deposits (*)		
Opening balance	458,973	2,312,911
Recovered in the period	938,985	(2,327,884)
Incurred in the period	-	473,946
Closing balance	1,397,958	458,973
Option and contribution payments - Kennecott		
Opening balance	(5,000,000)	(2,500,000)
Received in the period	(1,670,345)	(2,500,000)
Closing balance	(6,670,345)	(5,000,000)
Total cash outlay, net of funding received from Kennecott and reimbursable bonds	$ 23,657,815	$ 16,019,185

(*) The Company is required to make deposits against its mineral permits to guarantee its performance. In addition to the $1,397,958 currently on deposit, there are performance bonds secured by letter of credit in the amount of $283,320 (note 16).

MacKenzie Diamond Project

On July 31, 2004, and March 4, 2005, the Company entered into a series of agreements with the Jaeger Joint Venture (“Jaeger”), an entity partially owned by a director of the Company, to purchase the rights to any diamonds located on a series of properties (the MacKenzie Diamond Project) in the Inuvialuit, Gwich’in and Sahtu mining districts in the Northwest Territories, Canada. In June 2005, the Company acquired from Jaeger all other mineral rights, excluding uranium rights, to the prospecting permits to which it already owned diamond rights. Jaeger retains a 10% production carried interest and a member of Jaeger retains a 2% net smelter returns royalty (NSR). In addition, in terms of the agreements, the Company has agreed to pay 100% of the exploration and mine construction costs.

In July 2005, the Company signed an agreement with Kennecott Canada Exploration Inc. (“Kennecott”), under the terms of which Kennecott earned a 15% undivided contributory interest in the MacKenzie Diamond Project property by paying the Company $5 million. Kennecott has maintained this interest by reimbursing 15% of the Company’s exploration expenditures. The agreement also grants Kennecott the option to earn up to a 60% interest in any identified kimberlite or deposit (“Development Area”) by solely funding the activities on the Development Area until a decision to mine is made.

- Kennecott will earn a 49% interest in each individual project by completing, at its sole expense, a bulk sample and a positive feasibility study within four years; and

- Kennecott will earn a further 11% interest in each individual project by solely funding and managing all future evaluation through to such time as a decision to mine is made, provided that a decision to mine is made within twenty years of Kennecott earning the initial 49% interest in the individual project.

6. Mineral Properties (continued)

MacKenzie Diamond Project (continued)

Upon Kennecott earning this further interest in respect of a particular kimberlite or mineral deposit, the Kennecott Agreement provides that the Development Area will be carved out of the entire Mackenzie Diamond Project area and a development joint venture will be created, which will be jointly managed with each party funding its own interest and each party having votes according to its respective interest.

The party with the majority interest will be project manager and be entitled to an annual management fee of 1% of operating expenses. Either party's failure to contribute will lead to dilution of that party's interest in the development joint venture.

In the event of production of diamonds from any particular development joint venture, the entire Mackenzie Diamond project will become the property of that development joint venture and all subsequent exploration, evaluation and development will be carried out by the development joint venture. Kennecott, a subsidiary of Rio Tinto plc, will market all diamonds from the development joint venture in exchange for a 3% marketing fee.

In January 2006, the Company entered into an access and benefits agreement with Déline Land Corporation regarding the drilling for kimberlites in the Kilekale Lake area. The term of this agreement was from August 15, 2005 to December 31, 2007.

At March 31, 2008, he Company held 4.8 million acres (2007- 5.9 million acres) of permits and unpatented mining claims.

Reimbursable bonds

The reimbursable bond consists of amounts held on deposit by the Northwest Territories government to ensure that the required minimum levels of exploration and reporting are met. Exploration activity must be conducted on the property in the amount of the deposit during the period to which the deposit relates in order for the deposit to qualify for refund. These deposits must accompany the application for permit that must be filed in the month of December previous to the calendar year to which the application pertains. The permits for properties located above the 68th parallel and below the 68th parallel are for five years and three years respectively. Subsequent to these periods, claims are staked for the properties to be retained for further exploration work. In order to maintain the claims in good standing, the Company must complete minimum exploration expenditures as required.

(Expressed in Canadian dollars)

7. Property and Equipment

	March 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Office furniture	$ 30,010	$ 11,456	$ 18,554
Computer equipment	25,663	15,786	9,877
Leasehold improvements	41,357	28,379	12,978
Exploration equipment	363,497	22,812	340,685
	$ 460,527	$ 78,433	$ 382,094

	March 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Office furniture	$ 30,010	$ 5,444	$ 24,566
Computer equipment	24,727	7,464	17,263
Leasehold improvements	41,357	14,603	26,754
Exploration equipment	39,250	9,156	30,094
	$ 135,344	$ 36,667	$ 98,677

8. Common Shares

a) Authorized share capital

Authorized share capital comprises an unlimited number of common shares with no par value.

b) Issued share capital

At March 31, 2008 there were 62,319,254 common shares issued and outstanding (2007 - 40,849,651 common shares).

8. Common Shares (continued)

c) Common share issuances

The Company has completed several "flow-through" financings structured to pass on to subscribers the tax benefits associated with Canadian exploration expenditures (as defined in the Canadian Income Tax Act) funded by the proceeds of the shares. Under these financings, the Company renounces tax deductions in favour of subscribers.

In February 2008 the Company closed a private placement of 4,200,055 units and 2,793,500 flow-through shares at a price of $1.35 per unit and $1.55 per flow-through share, raising total gross proceeds of $9,999,999. The units consist of one common share of the Company and one-half of one warrant, each whole warrant entitling the holder to purchase one common share of the Company at an exercise price of $1.65 for a period of 18 months following the closing. A syndicate of agents led by Genuity Capital Markets and including J.F. Mackie & Company Ltd., Haywood Securities Inc. and Raymond James Ltd. acted as agents in connection with the brokered portion of the private placement. The agents received broker warrants to purchase in aggregate 489,549 common shares of the Company at an exercise price of $1.35 for a period of 12 months following the closing. The Company has agreed to renounce exploration expenditures totalling $4,329,925 before December 31, 2008. Related share issuance costs were $1,065,329.

On January 16, 2008, the Company completed the subscription for common shares of the Company by an affiliate of Kennecott Canada Exploration Inc. The affiliate, QIT-Fer et Titane Inc., acquired 641,025 common shares at a price of $1.56 per share.

In October 2007, the Company closed a brokered private placement consisting of 6,846,420 non flow-through shares and 6,669,000 flow-through shares. Attached to the non flow-through shares are share purchase warrants to purchase 3,423,210 additional non flow-through shares at a price of $0.30 per share for an 18-month period, and attached to the flow-through shares are 3,334,500 share purchase warrants priced at $0.35 per share exercisable for an 18-month period. The private placement raised gross proceeds of $3,712,305 and the Company paid offering expenses of $419,828. Through to December 31, 2007, the Company renounced the full amount in tax deductions in respect of the $2,000,700 flow-through component of the private placement.

On May 16, 2006, the Company completed a public offering of 7,142,857 flow-through common shares at a price of $1.75 per common share, for gross proceeds of $12.5 million. The Company incurred offering costs on this offering of $1,266,061, including a cash commission equal to 6% of the gross proceeds paid to Canaccord Capital Corporation ("Canaccord"), an administration fee of $7,500 paid to Canaccord and $50,166 of legal and administrative expenses incurred by Canaccord. Sanatana also granted Canaccord agent's warrants to acquire up to 428,571 non-flow-through common shares at an exercise price of $1.75 per share for a period of up to 24 months, and issued 100,000 non flow-through common shares to Canaccord at an issue price of $1.75 per share.

(Expressed in Canadian dollars)

8. Common shares (continued)

Through to March 31, 2008, the Company renounced tax deductions totalling $12,100,000 in favour of subscribers to the 2006 flow-through financing. As at March 31, 2008, the remaining balance required to be spent on eligible expenditures was $5,139,155 (March 31, 2007 - $5,013,143).

d) Escrowed shares

Pursuant to escrow agreements, 13,803,373 of the Company's common shares were placed in escrow at the time the shares were first listed on the Exchange. The escrowed shares were subject to a three-year automatic time release escrow, in equal tranches of 15% of each principal's holdings released at six-month intervals, with 10% of each principal's holdings being exempt from escrow effective on the date the Company's shares were first listed on the Exchange.

As at March 31, 2008, 6,211,518 common shares (March 31, 2007 – 10,352,530 common shares) remained in escrow.

9. Share Purchase Warrants

The Company's movement in share purchase warrants is as follows:

	March 31, 2008		March 31, 2007	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of year	428,571	$1.75	-	$ -
Granted	9,347,287	0.68	428,571	1.75
Exercised	(319,603)	1.27	-	-
Expired or cancelled	-	-	-	-
Balance, end of year	9,456,255	$0.70	428,571	$1.75

(Expressed in Canadian dollars)

9. Share Purchase Warrants (continued)

Summary of outstanding warrants at March 31, 2008:

Expiry Date	Exercise Price	Financing Warrants Outstanding	Broker Warrants Outstanding
May 15, 2008	$ 1.75	-	217,110
April 22, 2009	$ 0.35	3,251,167	-
April 22, 2009	$ 0.30	3,398,401	-
August 4, 2009	$ 1.65	2,100,028	
February, 2009	$ 1.35	-	489,549
		8,749,596	706,659

The Company estimated the fair value of each broker warrant at the date of grant using the Black-Scholes option pricing model with the following assumptions:

For the years ended March 31,	2008	2007
Expected dividend yield	0%	0%
Expected volatility	76.9%	76.9%
Risk-free interest rate	3.00%	4.06%
Expected life	1.41 years	2.0 years

For the year ended March 31, 2008, the fair value of broker warrants granted totalled $212,000 (2007 - $327,954), which was credited to share purchase warrants.

10. Stock Options

In 2005, the Company's shareholders approved a stock option plan (the "2005 Option Plan") which is a "rolling" plan that provides for the issuance to directors, officers, consultants and employees of the Corporation up to 10% of the common shares of the Company issued and outstanding at the date of the stock option grant. The 2005 Option Plan was amended and restated in 2006 to comply with the requirements of the Exchange, however, it remains governed by the laws of England. In July 2007, the Company's shareholders approved a stock option plan with similar provisions to the 2005 Option Plan under the rules of the Exchange. The 2007 stock option plan is considered a continuation of the 2005 option plan. The directors may set option terms, but options granted under the plan typically have a life of five years and vest over an 18-month period.

(Expressed in Canadian dollars)

10. Stock Options (continued)

The Company amortizes the stock-based compensation expense over the respective vesting period of the options granted and recorded $476,251 of stock-based compensation in the year ended March 31, 2008 (2007 - $23,146).

	March 31, 2008		March 31, 2007	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of year	3,170,000	$1.16	-	$ -
Granted	300,000	0.75	3,170,000	1.16
Exercised	-		-	-
Expired or cancelled	(50,000)	(0.75)	-	-
Balance, end of year	3,420,000	$1.13	3,170,000	$1.16

Summary of outstanding options at March 31, 2008:

Exercise Price Range	Weighted Average Exercise Price	Number of Outstanding Options	Weighted Average Remaining Life	Number of Exercisable Options
$0.75	$0.75	1,420,000	4.30 years	-
$1.40	$1.40	2,000,000	4.23 years	-
		3,420,000	-	-

The options granted to consultants of the Company were revalued in the year ended March 31, 2008, using the Black-Scholes options pricing model with the following assumptions:

For the years ended March 31,	2008	2007
Expected dividend yield	0%	0%
Expected volatility	86.9%	86.9%
Risk-free interest rate	2.80%	3.90%
Expected life	5.0 years	5.0 years

The weighted average grant date fair value of options awarded in the year ended March 31, 2008 was $0.24 (2007 - $0.28).

(Expressed in Canadian dollars)

11. Related Party Transactions

At March 31, 2008, the Company did not have any employees and had arrangements with a number of contractors to provide administrative, accounting and management services. Certain directors and significant shareholders provided management and consulting services to the Company.

Related party transactions in the year ended March 31, 2008 were:

For the years ended March 31,		2008		2007
Services provided by:				
Directors and insiders (a)	$	127,914	$	302,473
Lithosphere Services Inc. (b)		86,000		-
St. George Minerals Limited (c)		57,971		76,043
MCSI Consulting Services Inc. (d)		19,500		-
Reimbursement of exploration expenses by Kennecott (note 6)		1,670,345		-

a) Directors and insiders provided services in the normal course of business. These services are classified according to their nature, including financial, technical, investor relations, and management services.

b) Fees for technical services performed by a company controlled by a director of the Company

c) Fees for financial and administrative services performed by a company controlled by a former director of the Company.

d) Fees for financial services performed by a company controlled by an officer of the Company.

These transactions were recorded at the exchange amount, being the consideration established and agreed to by the related parties.

Balances included in accounts payable and accrued liabilities are as follows:

For the years ended March 31,		2008		2007
Directors and insiders (a)	$	-	$	17,195
Lithosphere Services Inc. (b)		-		10,600
St. George Minerals Limited (c)		-		6,969
MCSI Consulting Services Inc. (d)		1,927		-

Related party balances are due on demand, bear no interest and are current liabilities.

(Expressed in Canadian dollars)

12. Income and Resource Taxes

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial tax rates to the loss before tax provisions due to the following:

For the years ended March 31,	2008	2007
Loss for the year before taxes	$ (1,246,608)	$ (856,764)
Statutory tax rate	33.47%	34.12%
Expected income tax recovery	$ (417,240)	$ (292,328)
Non-deductible stock-based compensation	159,401	7,897
Effect of reduction in tax rates	(343,225)	6,623
Financing costs	(331,021)	(431,890)
Increase in valuation allowance	217,085	709,698
Actual tax expense (recovery)	$ (715,000)	$ -

The significant components of the Company's future tax liability are as follows:

For the years ended March 31,	2008	2007
Non-capital loss carry forwards	$ 1,118,581	$ 960,042
Property, plant and equipment	20,149	12,510
Financing costs	586,303	589,635
Mineral properties	(4,370,601)	(3,002,618)
Valuation allowance	(1,725,033)	(1,562,187)
Future income tax liability	$ (4,370,601)	$ (3,002,618)

The Company's future tax assets include $586,303 (2007 - $589,635) related to deductions for share issue costs in excess of amounts deducted for financial reporting purposes. If and when the valuation allowance related to these amounts is reversed, the Company will recognize this benefit as an adjustment to share capital as opposed to income tax expense in the statement of operations.

The realization of benefits relating to the operating losses carried forward is uncertain and cannot be viewed as more likely than not. Accordingly no future income tax asset has been recognized for accounting purposes.

The Company has Canadian non-capital losses carried forward of approximately $4,300,000 which expire in various amounts from 2015 to 2027.

(Expressed in Canadian dollars)

13. Commitments

The Company has the following future minimum commitments based on existing leases and agreements:

Year ending March 31		
2008	$	37,200
2009		62,000
2010		-
2011		-
2012		-
	$	99,200

a) Under the terms of an agreement dated November 25, 2004 with Geoinformatics Explorations Limited (“Geoinformatics"), a company in which the Company's former chief executive officer was formerly a director, and of which a current director is chief executive officer, Geoinformatics is entitled to a 0.9% gross overriding royalty.

b) A member of Jaeger Joint Venture, from which the Company purchased an interest in the MacKenzie Diamond Project, is entitled to a 2% net sales revenue royalty from that project.

c) The Company signed a 36-month lease for office space, starting February 1, 2006. The total lease commitment is $6,000 per month plus GST. In addition, the first three months were rent-free. The rental liability related to this inducement has been accrued and is being amortized over the term of the lease.

d) Under the conditions of flow-through financings (see note 6) and related income tax law at March 31, 2008, the Company was committed to spending $400,000 on future eligible exploration expenditures before May 31, 2008 (this was achieved), a further $809,330 before October 31, 2009 and a further $4,329,925 before February 2010.

14. Financial Instruments

The Company is exposed to interest rate risk on its term deposits, and has not engaged in any interest rate hedging activity.

The Company is exposed to credit risk on its deposits and letters of credit. Credit risk arises from the possibility that any counterparty to an instrument fails to perform, The Company only transacts with highly rated counterparties.

(Expressed in Canadian dollars)

15. Supplementary Cash Flow Information

For the years ended March 31,	2008	2007
Interest and taxes paid	$ -	$ -
Non-cash investing activities:		
Amortization in mineral properties	13,656	7,848
Non-cash financing activities:		
Shares issued as listing costs	-	175,000
Warrants issued as listing costs	212,000	327,954

16. Off-Balance Sheet Arrangements and Contingent Liabilities

Kennecott had deposited a letter of credit in the amount of $283,320 on the Company's behalf to fulfill bonding requirements for the 2007 exploration season (see note 6).

17. Subsequent Events

On April 25, 2008 the Company granted 1,200,000 stock options to directors and officers of the Company at a price of $1.35 each for a term of five years. The Company also granted 400,000 stock options to contractors at a price of $1.00 each for a period of five years. The Company also accelerated the vesting of options previously issued with a three-year vesting term so that the options now vest in tranches over an 18-month period from the date of grant.

18. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.